

# International Stock Fund

## MARKET COMMENTARY

Possible conflict in Iraq, disappointing earnings growth, and weaker global economic data resulted in the worst quarter for international equities since 1990. Japan and the Pacific ex-Japan posted the strongest regional returns, while Europe and Latin America trailed. Economic data weakened across the Continent, and rising energy prices led to inflation concerns. In contrast, UK economic conditions were more favorable and inflation was benign. Deep-rooted problems in Japan persisted, although a few economic indicators improved. The Bank of Japan announced plans to purchase bank portfolio holdings, contributing to a rally in the sector. Pacific ex-Japan economies remained healthy, although the outlook weakened for those with greater dependence on the US and technology. Latin American economies were weak overall. The Brazilian real fell 27% and equities declined 39% in the uncertain environment preceding the presidential election. Food/beverages, autos, and utilities led, followed closely by telecoms. Japanese autos accounted for most of the strength in that sector. Non-Japanese stocks underpinned a strong telecom rebound supported by industry consolidation.

## Portfolio Performance

International Stock Fund Performance  
periods ending September 30, 2002

	Three Months	YTD	Annualized			
			One Year	Three Years	Five Years	Ten Years
International Stock Fund (%)	-21.64	-24.57	-17.16	-15.28	-6.74	3.28
MSCI EAFE Index (%)	-19.69	-20.79	-15.26	-14.34	-5.37	3.25

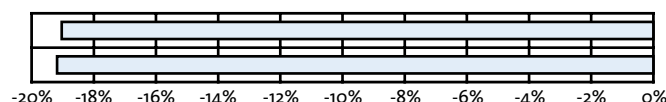
Returns for the fund are shown net of expenses. Figures include changes in principal value, reinvested dividends and capital gains distributions. Investment return and principal value will vary. Shares may be worth more or less at redemption than at original purchase. Past performance cannot guarantee future results.

## Index Returns

for the quarter ending September 30, 2002

### Growth and Value Performance<sup>1</sup>

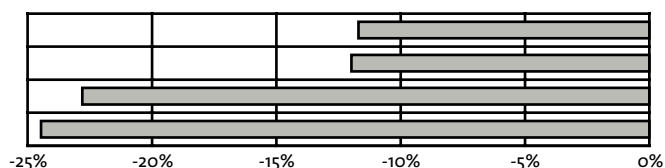
International Value  
International Growth



<sup>1</sup> Returns based on SSB PMI ex-U.S. Growth and Value Indices

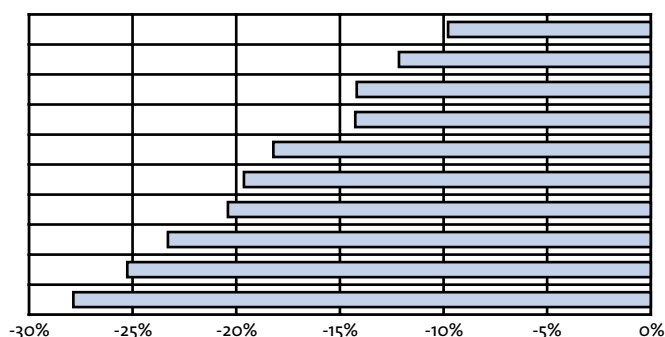
### Regional Performance<sup>2</sup>

MSCI Pacific ex Japan Index  
MSCI Japan Index  
MSCI Europe Index  
MSCI EMF Latin America Index



### International Sector Performance<sup>2</sup>

Consumer Staples  
Utilities  
Health Care  
Telecommunication Services  
Consumer Discretionary  
Energy  
Materials  
Industrials and Business Services  
Financials  
Information Technology



<sup>2</sup> Returns based on MSCI Indices

## Outlook

Growth should remain subdued, but corporate earnings should start to recover in 2003, supported by low interest rates, company restructuring, industry consolidation, and product innovation. Equity valuations outside the US have reached compelling levels in some cases. We continue to focus on attractive stocks of growth companies that are well-managed, with good cash flow and increasing returns. With revenue growth harder to find, businesses that are boosting earnings through cost-cutting, restructuring, or increased market share have attained greater prominence. With businesses exhibiting stronger revenue growth, the portfolio can benefit from an improvement in the economic cycle. European equities hold more attraction than those in Japan. We are generally optimistic about emerging markets, particularly in Asia where valuations are attractive.

## ACTIVITY THIS QUARTER

Portfolio activity focused on reducing holdings that performed well in relative terms, but in which we have less conviction going forward. We took advantage of rebounds to reduce media group VNU, where we are concerned about a changing business mix and rising capital intensity, and Murata, a relatively overvalued leader in electronic components. In light of their Brazilian exposure, we trimmed both Portugal Telecom and mobile TIM after good performance, even though their management teams and market positions remain attractive. We sold Altran, Hong Kong property group Henderson Land, and Singapore bank DBS, which faces low loan growth and price competition. We invested in businesses that display potential for earnings growth in a less buoyant economic environment. Purchases included Ericsson and Kingfisher. We believe Ericsson's 3G franchise and Kingfisher's position as Europe's largest DIY group have more value than is presently reflected in the market. We added to Swedish security services group Securitas and Honda.

## Attribution Analysis

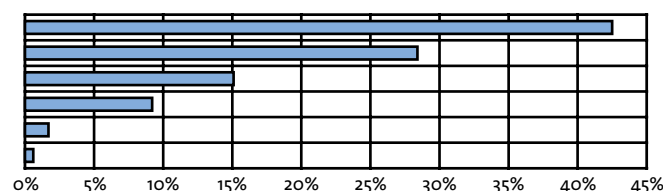
The portfolio underperformed its benchmark. From a country perspective, underweighting Japan and, to a lesser extent, disappointing stock selection there hurt relative performance. Underweighting Australia detracted while weak stock selection accounted for the negative impact of Sweden and the Netherlands. However, underweighting Germany helped mitigate these disappointments. Stock selection in banks detracted most, followed by the negative effect of stock selection in commercial services and hotels/restaurants. An overweight position in commercial services also hurt relative returns. There were positive effects from stock selection and an overweighting in telecoms.

## Portfolio Weights

September 30, 2002

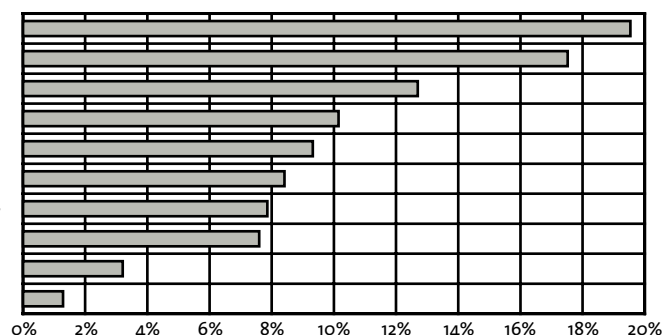
### by Region

Europe (except UK)  
United Kingdom  
Japan  
Pacific (except Japan)  
Latin America  
Canada



### by Sector

Financials  
Consumer Discretionary  
Health Care  
Consumer Staples  
Energy  
Telecommunication Services  
Industrials and Business Services  
Information Technology  
Materials  
Utilities



## TOP TEN HOLDINGS

as of September 30, 2002

**GlaxoSmithKline**  
Pharmaceuticals & Biotechnology, United Kingdom  
**Reed Elsevier**  
Media, United Kingdom/Netherlands  
**TotalFinaElf**  
Energy, France  
**Nestle**  
Food Beverage & Tobacco, Switzerland  
**Shell T & T/Royal Dutch**  
Energy, United Kingdom/Netherlands  
**Royal Bank of Scotland**  
Banks, United Kingdom  
**Vodafone**  
Telecommunication Services, United Kingdom  
**Aventis**  
Pharmaceuticals & Biotechnology, France  
**Sanofi-Synthelabo**  
Pharmaceuticals & Biotechnology, France  
**BNP Paribas**  
Banks, France

*Top ten holdings represent 25.6% of the portfolio. All other securities mentioned in this report represent 4.8% of the fund's total assets.*

## Key Statistics

	International Stock Fund	MSCI EAFE Index
<b>September 30, 2002</b>		
Number of Holdings	185	1,013
Investment Weighted Median Market Cap (\$mm)	\$22,556.4	\$18,193.4
P/E Ratio (12 months forward)	17.8x	18.2x
Top 20 Holdings as Percent of Total	38.6%	28.1%
Percent of Portfolio in Cash	2.4%	N/A
Return on Equity (Last 12 months excl. charges)	12.5%	10.0%
<b>Five Years Ended September 30, 2002</b>		
Standard Deviation	18.58%	16.88%
Beta	1.08	1.00
Alpha	0.36	0.00
Sharpe Ratio	-0.56	-0.58